



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

THE DEBT AND REPARATION LABYRINTH

For the past month foremost statesmen of the world have been concentrated again on the economic problems growing out of the relations between the Allies and the United States during the war and out of the Treaty of Versailles; and, so far as the public can see, the statesmen are no nearer an affirmative answer, complete or partial, than they were six months ago or twelve months ago.

About the middle of August, M. Jean V. Parmentier, representing the French Government, concluded his negotiations with Secretary Mellon, acting for the Foreign Debt Commission, and prepared to return and make report to Premier Poincaré. No definite conclusion had been reached. Secretary Mellon was compelled to say to M. Parmentier what the law of this country had provided, namely, that the Debt Commission may refund the obligations owed this country by France, Great Britain, and other European nations associated with us in the World War, but it cannot cancel the debts. And that evidently reduced the conversation between M. Parmentier and Mr. Mellon almost to the level of technical discussion of accounting, since cancellation is the only way France sees out of the situation. Possible reduction of French military forces may have figured, but that could have been no more than a detail in comparison with the major question.

This flat position on the part of the United States with respect to the debts rendered futile an offer made by the Earl of Balfour, on behalf of Great Britain, on August 1, to cancel the debts due Great Britain by other European nations if the United States would cancel the debt due it by Great Britain. The Balfour argument was that it would be manifestly unfair for one partner in a common enterprise—the late war—to bear the great burden of canceling debts due it by certain of the partners, while being compelled by another partner to meet the debt it owed that partner. Of course, the Earl of Balfour knew when he made the offer that there was a law in this country preventing its acceptance. He probably thought to test the possibility of a public opinion in this country that would change the law. If so, the result has not been favorable.

And while M. Parmentier and Mr. Mellon were negotiating in this country, and just after the Earl of Balfour submitted the British offer of general cancellation—all resulting in nothing—the prime ministers of Great Britain, France, Belgium, and other nations concerned with German reparations were preparing to meet in London in “the thirteenth allied” conference. They met in due course. For days they debated various proposals and theories. Mr. Lloyd-George, upholding the British theory, wanted to grant Germany a moratorium in the payment of her reparation obligations, and also wanted to reduce the total reparation obligation heavily. The British at one time or another lately have talked about reducing the total obligation of Germany from 132,000,000,000 gold marks to 50,000,000,000. M. Poincaré, insisting upon France being paid what Germany is obligated to pay, urged such steps of coercion and extraction as Allied control of German mines and forests. The upshot was, on August 14, an agreement to disagree, and the conference was dissolved.

The net result of it all today, so far as observers can see, is a policy of do nothing about the actual payment of the several sets of debts, running high into the billions, while

the question of German reparations, underlaid as it is with political and economic dynamite, is left for the time being in the hands of the Reparations Commission. That body will pass on such matters as temporary relief to Germany and supervision of her finances, while the heads of the big European powers take time to think again what they shall attempt to do in formulating fundamental policies. In the question of reparations the United States, of course, has no part, other than to collect what is due it for the costs of its army of occupation on the Rhine, and other than to indicate semi-officially and very guardedly, from time to time, a belief that reparations should be cut somewhat.

With the debt cancellation question thrust aside for the time being, in any event, and the reparations questions thrown back on the minds of the European statesmen, and with France occupying the pivotal position in future negotiations on the subject, as in past negotiations, two articles that recently appeared in the American press are important. One is by Frank A. Vanderlip, in the *New York World*. Reluctantly, it seems, Mr. Vanderlip is led to the conclusion that France's position is fundamentally wrong. The other article is by Frank R. Kent, in the *Baltimore Sun*, being mainly an interview with M. Parmentier shortly after he reached this country, and therefore a defense of France. Comparison of the two articles will give an idea of the complexities of the problem faced by the statesmen of Europe, and in lesser degree by those of this country, since the world is too small for good or ill results in Europe not to be felt in the United States.

In Mr. Vanderlip's article, written before the London meeting, in the *World* this appears:

The world of Europe awaits the outcome of a conversation between two men, and the lives of 440,000,000 of peoples will be vitally affected by the result of that conversation.

History is not made by the masses; events are shaped, history is written, by comparatively few hands. It is not peoples, but people, who make history, and the making not only of the immediate history of Europe, but the shaping of endless consequences, lie not in the hands of Premiers Poincaré and Lloyd-George.

What are the elemental facts with which these two men have to deal? With increasing clearness, these fundamental facts are coming into view. An imposed peace was made at Paris. There was left out every element of that vision of justice and hope for brotherhood which Woodrow Wilson had. There was no magnanimity in the peace; there was almost a total absence of justice. “Vengeance is mine, saith the Lord,” but the Allies thought vengeance was theirs, and so shaped a peace of vengeance. The fruits are bitter.

VENGEANCE WAS BLIND

Vengeance is blind, and in this case the blindness took, particularly, the form of economic blindness. Economic illusions of far-reaching consequence were engendered. France was a pitiful victim of the war, but she is now a more pitiful victim of illusions created by peace. Acting under the illusion that as the desperately injured but victorious nation she could collect from Germany material recompense for her injuries, she has expended 90,000,000,000 francs in partially healing her wounds. Some of this expenditure was wise, some was not honestly handled—but it was spent. Against it she wrote in deficient budgets “recoverable expenditures.” It was not recoverable, and to provide funds she created a short-term floating debt of 90,000,000,000 francs.

Now, to face the realities of her cast-off illusions leaves her in a card-house of finance.

That is one reason why Premier Poincaré cannot come in conference with Premier Lloyd-George seeing realities clean-eyed. But there is another reason. France lives in terror

of a reconstructed Germany. If there had been a just peace, Germany might have accepted it in good part and her war spirit, dragged in the dust, might never have recovered. Instead of that, an unjust peace has been administered unwisely. German sensibilities—Germans have sensibilities, although propaganda has led us to doubt it—have been outraged by African troops and by thousands of provocative actions. The Germans would not be human if they had not developed the spirit of resentment found here today and which offers a sound basis for the fears of France. A reconstructed Germany, left uncontrolled by a powerful association of nations and held in check by no opposing alliances or guarantees, is a danger to France.

ENGLAND SEES REALITIES

England, seeing that the reality of the situation is that the economic impossibilities demanded were an attempt to undo the peace, is prepared to wipe out at least some of the errors and to permit Europe to have a fresh start. But France cannot awake from her illusion to face bankruptcy nor face with equanimity a reconstructed Germany that would be a reconstructed enemy. Therefore France cannot be expected to send M. Poincaré to the conference seeing and accepting the realities.

FEARS RED REVOLUTION

At the moment there is less idleness in Germany than most other countries, but there seems to me to be inexorable factors at work which soon will produce large unemployment. This is likely to come at the same moment that there are sharply advancing price levels. That is what I believe Germany is facing, unless there be relief within the next few months.

This promises a revolution from the Left. It might be sternly repressed and so open the way for a swing of political control to the Right, placing, for the time being, political control in the hands of the reactionary monarchical party. But whether the government is administered by the Center, Left, or Right, no government can remove the economic disabilities that are gripping Germany.

SCOUTS BAVARIAN DANGER

I attach no great importance to the present internal controversy between Bavaria and the federal government. That movement is but repeating American history; it is a struggle between the ideas of State sovereignty and centralized government. There is a background of monarchical sentiment in Bavaria, but its supporters are too wise to wish to press that movement in the time when they know a newly constituted monarchy would face such economic troubles as would insure its early downfall. I have talked with Chancellor Wirth and with the Bavarian Prime Minister, Count Lerchenfeld. I believe the attitude of both governments is too sane and moderate and their recognition of the dangers with which Germany is confronted too clear to permit this domestic political difference to drift into an active break.

A failure by these two statesmen to reach a practical agreement which will permit the revival of the economic life of Europe will mean, I believe, terrible consequences. I could tell of Austria; of the inescapable grip of economic facts on the throat of Hungary; of the political chaos in Poland or of the complete economic decay of Russia, and any one of these factors ordinarily would be enough to convince me of the gravity of the European situation. But for some weeks I have been studying conditions in Germany, and that leads me to emphasize the importance of the coming crisis in Germany if no relief is afforded her.

ECONOMIC CRISIS APPROACHING

The casual observer would see the industries of Germany almost fully employed, a fairly orderly state of society, splendid cities kept in irreproachable neatness, a fairly satisfactory harvest, tempting shop windows and abundantly supplied hotel tables. From all this it might be argued that a German crisis is the illusion of a pessimistic economic mind. In the face of present facts, however, I

believe the deeper observer cannot fail to see inevitably the approach of an economic crisis of the gravest order. In about a month's time we have seen the mark depreciate from 200 to the dollar to 600 to the dollar. All the forces that led to the depreciation are still at work, some with redoubled strength.

Economic forces, dynamic economic events, do not stand still waiting the outcome of political discussions. Germany at present is raising but three-fifths of her food supply and only two-thirds of her fodder requirements. She must import raw material, her manufactures and her manufacturers must produce for export enough to pay for these essential requirements, and the world must be prepared to buy these goods or Germany will go hungry.

IN GRIP OF ECONOMIC VISE

German industry today is in the grip of economic pincers, and inevitable disaster can be precipitated from a movement by either jaw of the pincers. If the decline of the mark is stopped, manufacturers for export would find their cost of production speedily brought up to the world level and their export movement stopped. That was beginning before the recent decline in the mark.

On the other hand, if the mark continues to decline, which now seems more probable, it inevitably will be accompanied by a credit crisis, of which signs are now plainly visible and the result of which is the extreme embarrassment of all production for domestic consumption.

If the consequences of the unaltered peace terms are really likely to be so disastrous, one may well wonder why those consequences were not more clearly seen. I believe they are seen with great clarity by the English statesmen. Why, then, does not England, so strong in common sense, so experienced in settling difficulties in a practical way—even when practical solutions violate theoretical principles—why should not such an England insist that France now come to take recognition of realities? Why does not England devise and enforce a program for the economic reconstruction of Europe? What I believe is the true reason for the semi-paralysis of British action has come to me as a greater shock than anything I have learned in Europe.

Bulldog England, with a history full of such courage that she has seemed afraid of nothing, today is afraid of a break with France. She fears the 2,700 French airplanes, manned by the most daring and skilled airmen in the world. She has 800,000 reasons for fearing French military force, for France has the most formidable army in the world. She fears the undersea fleet that France has been steadily constructing in the face of a world demand for disarmament. It is this fear that prevents England from taking a course so strong that it might result in a break with France, and unless she takes such a course, France, dominated by her financial difficulties and her fears of reconstructed Germany, hardly can be expected to give way in her ideas of her rights under the various treaties of Paris, so far as will permit the inauguration of a program that will avert the economic disaster with which the continent is threatened.

AMERICA MIGHT SAVE EUROPE

Must America stand by, either ignoring the facts or, if alive to them, helpless? If America's moral forces were brought to bear on the situation and American financial strength brought to contribute to its solution, America might be the salvation of Europe. Here, again, history is not made by the masses, but by the acts of a few people. If there were combined in a President of the United States the moral vision of a Wilson, but with none of the disabilities of temperament which caused that moral vision to go down in utter wreck; the popular vigor and daring of a Roosevelt, and the shrewdness of a Elihu Root in his prime, there might be written some different page of history from those that are likely to be engrossed. It would need a government, with all those characteristics to grapple effectively with this problem, and back of such an administration there need would be a wise Congress, that would trust and follow the Executive.

There is about as much chance of such an outcome as

there is that the conference between Premiers Lloyd-George and Poincaré will speedily reach an agreement which will save the situation.

In Mr. Kent's article in the *Sun* this appears:

"All I can do is to lay the financial facts about France before the American Treasury officials and let them see exactly the fix she is in. I can suggest no plan by which France can now pay either interest or principal of her war debts. I have not come over for that purpose. I have come to lay all the data on the table, so that there may be no misunderstanding of France's position."

This is the way his mission to this country was summed up today by Jean V. Parmentier, Director of Finance of the French Treasury, who will appear before the American Foreign Debt Commission Thursday to discuss the funding of the French debt to this country. M. Parmentier is an exceedingly attractive and earnest young Frenchman of marked ability and charm. He presents his case with both force and logic.

HAS NO PLAN AT PRESENT

"France," he says, "has no plan for paying the debt. How can she have? With the best will in the world, she is unable at this time to shoulder any additional burden without disaster. Faced this year with a heart-breaking deficit in her budget of more than four billions of francs, there seems no possible road to closing this gap except through the medium of further internal loans, which increase the national debt, increase the annual interest thereon, and enlarge the annual deficit. It is a method that ultimately means instead of requiring 53 per cent of all revenue from all sources to meet this interest, 100 per cent will be required, and there will be nothing left for the expenses of running the French Government."

"The only way back to balanced budgets and financial safety lies along the reparation route. Unless France, which has been brought to this point by the war, can secure reimbursement from Germany for the frightful damage wrought to the richest and most fertile part of the country, she cannot meet her obligations nor maintain her equilibrium. If France is to pay, she must be paid."

COMPARES 1913 AND 1922 BUDGETS

Concerning the suggestion that France might better her financial situation by the cutting down of her military forces, the institution of rigid economy in governmental expenses, and the increase of her taxes, M. Parmentier has a very convincing and forceful answer.

"Look for a moment," he said, "at these figures of the proportion of revenue absorbed by the national debt, the military forces, and the civil service, respectively:

	1913.	1922.
National debt.....	26.8%	52.5%
Military	35.6%	19.5%
Civil service.....	37.6%	28%

"This shows," M. Parmentier continued, "that since the war began the interest on our national debt, not including foreign debts nor war debts, has doubled in its percentage of revenue absorbed, whereas the percentage of revenue devoted to keeping up our army has shrunk 16 per cent, and that devoted to all other governmental activities has dropped nearly 10 per cent. It seems to me these figures and facts are a sufficient answer to those who suggest that it is the expenses of our military forces or our governmental extravagance that prevent our finances from attaining stability."

90 BILLION GOLD MARKS ADVANCE

"The thing that hangs like a weight around the financial neck of France is the fact that she has advanced more than 90,000,000,000 of gold marks for the restoration of the devastated area in anticipation of receiving this sum from Germany in reparations due—and has not received it. Under

these circumstances does it not seem unreasonable to ask France to scale down her reparation claims against Germany unless some adjustment of France's foreign debts can be made? Would France, for instance, have the right to reduce her claim against Germany when she is unable to pay the claims of America and England against France?"

Taking up the matter of the income tax in France, M. Parmentier gave some interesting figures.

"Do you know," he said, "that there are only 32 people in the whole of France who have incomes exceeding 1,000,000 francs a year? One million francs at the present rate of exchange is less than \$100,000. Do you know that there are under 200 people in the whole of France who have annual incomes exceeding 500,000 francs, which would be about \$50,000 at the present rate? In France there is a far more even distribution of wealth than in any other country of the world. There are practically no great fortunes in France comparable to those in England and in America. A supertax on incomes in France would yield practically nothing."

REDUCING THE ARMY'S OFFICER PERSONNEL

Recently the War Department issued a statement which is, in a way, a milestone in the path toward reduction of militarism. The statement had to do with plans for eliminating from the service officers for whom there no longer is work, in consequence of the winning of the fight in Congress for a smaller army.

Part of the statement follows:

The army appropriation bill, which became a law on June 30, 1922, requires a drastic reduction in the commissioned personnel of the army. Readjustment to the new strength authorized in the law is to be accomplished by the retirement and discharge before January 1, 1923, of several hundred officers, and by recommissioning other officers in lower grades.

The difficult and highly important duty of selecting officers to be retired and discharged and of determining the numbers to be recommissioned in lower grades is, by the terms of the law, entrusted to a board of five general officers, including some from the retired list, to be convened by the Secretary of War. The magnitude and importance of the work of this board have caused the utmost care to be observed in the selection of its members. As the work must begin at once, it has been necessary to select the members of the board from among the general officers immediately available, who can be spared for this duty without interference with other important duties. In the cases of retired officers, selections have been limited to those who consent to being placed on active duty.

It has been the endeavor of the War Department to provide a board that would be thoroughly just and impartial and whose membership would represent the various classes of officers whose records must be weighed by the board. Officers now, or recently, closely identified with the present War Department administration have, in general, been excluded from membership, as have also officers who have been members of the annual classification boards to select the inefficient Class B officers. The membership of the board includes officers who are and others who are not graduates of West Point. It also includes an officer who did not serve abroad during the war. Among its members are officers who have served in the three major branches of the army—the infantry, the artillery, and the cavalry—and also officers whose service has been confined largely to staff departments.

The members of the board are as follows: Major-General Joseph T. Dickman, retired, president; Major-General Marritte W. Ireland, Major-General Henry P. McCain, retired; Brigadier-General Andre W. Brewster, and Brigadier-General Ernest Hinds.